



Research



RESEARCH :: COMPANY :: JSL (JINDAL STAINLESS LIMITED)

9th November, 2009

BUY

Approx price	= Rs 97
Target price	= Rs 130
Estimated EPS	= 8
Projected PE	= 18
Investment period	= 12 mnths

STOCK INFO (TTM Basis)

Sector	Stainless Steel
Market cap (Rs. Cr)	1560
Face value	2
Book value	80
EPS	-
Cash EPS	-
Dividend	-
Sales Growth	-20%
RONW	-
Debt to equity	4.4
52 week H/L	118/27
Avg Daily Vol	238000
Sensex	16158
BSE code	532508
Promoter Holding	46%
Management	OP Jindal
Incorporation	2004
Listed	NSE, BSE

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COMPANY PROFILE

JSL, ISO: 9001 & ISO: 14001 certified, company is the flagship company of the US\$ 10 Billion, multiproduct O P Jindal Steel conglomerate. In the year FY 09 company changed its name from Jindal stainless limited to JSL limited. JSL limited, India's leading stainless steel manufacturer, came a long way from its incorporation on 29th September of the year 1980 as Jindal Ceramics Limited. Company sells a broad range of stainless steel flat products which includes slabs, blooms, flat bars, hot rolled & cold rolled coils, plates and sheets along with specialty products. Presently, Company operates from plants situated at Hisar (Haryana), Vishakhapatnam (Andhra Pradesh) and Duburi (Orissa). The Company's subsidiaries include Jindal Stainless UK Limited, Jindal Stainless FZE, PT Jindal Stainless Indonesia, Jindal Stainless Italy S.r.l., Jindal Stainless Steelway Limited, Austenitic Creations Private Limited and Jindal Architecture Limited.

Orissa Division:

Jindal Stainless is setting up a Greenfield integrated Stainless Steel project in the state of Orissa with capacity of 1.6 million tons per annum. JSL has completed Phase I worth Rs 3000 crore of integrated stainless steel facilities at Kalinganagar industrial complex, Duburi, Jagpuri in the state of Orissa. The company has Ferro Alloys division consisting of Ferro Alloys manufacturing facilities including Ferro Chrome, Ferro Manganese & Silico Manganese facilities along with the waste heat recovery based Power Plant and Thermal Power Plants. During the year Ferro Alloys division of the plant has produced 85,490 tons of Ferro Chrome, 20,000 tons of Ferro Manganese and 12,015 tons of Silico Manganese against aggregate installed Ferro alloys capacities of 250,000 tons. Due to sudden fall in realization production from the Ferro alloys facilities were affected. Further the 2 X 125 MW captive thermal power plant, during the year FY 2009, have generated net 749 million units. Operations at the captive thermal power plant were also hampered due to falling of transmission towers on account of heavy rainfall and cyclone.

During the current financial year the company's Chromite mines division produced 127,426 MT of Chrome Ore, 30927 MT of Concentrate Chrome Ore. The Project for beneficiation of low grade / tailings is under various stages of erection and the plant is likely to be commissioned early July, 2009.

Phase II of Orissa project worth Rs 6200 crore is under implementation envisaging production of 800,000 tons of stainless steel with hot rolling and cold rolling facilities, highest ever for JSL. According to management project will take 12 – 18 months more to be completed. As part of this project, three major production units are being set up, steel melt shop, hot rolling tandem mill & cold rolling complex including hot rolled annealed pickled line, cold rolled annealed pickled line & associated finishing lines.

Vizag division:

The Vizag Plant of the company is a single product manufacturing unit which produces High Carbon Ferro Chrome (HCFC) with installed capacity of 40,000 Tons per annum. The Chrome ore required for the production of HCFC is being sourced from captive Sukhinda Chromite Mines and the output is being supplied to the Hisar plant as well as sold in the export market. During the financial year 2008-09 the Vizag plant had a maintenance shutdown of its furnace for 2 months starting from April'08, in order to have shell replacement and relining work. Due to this maintenance shutdown the plant produced 31,901 tons of HCFC as compared to 33504 tons of production in 2007-08.

Hissar division:

During the FY 2008-09, company at Hissar plant enhanced the stainless steel melting as well as hot rolling mill capacities to 7, 20,000 tons per annum each. Hot rolling mills of the company are well outfitted with modern technologies. In the year FY 2009, Hot rolling division produced 466,834 tons of stainless steel slabs, 461,725 tons of hot rolled products. The fact that everything from the conversion of raw material into blooms and slabs to hot rolling of strips and plates and cold rolling is done in-house is one of the most important reason for the success of JSL Ltd.

Cold rolling division in this plant has four cold rolling lines with total capacity of 300,000 tons per annum. During the year FY 2009, Cold rolling division produced 115,080 tons Cold Rolled Stainless Steel and 62,143 tons of hot rolled annealed pickled saleable products. Further, the special product division of the company has produced 10,561 tons of coin blanks and 13,038 tons of special steel, during the year. The company has been awarded with national level “Good Green Governance” award by Shristi publication for its valuable contribution to the environment.

Project		Hissar Expansion	Orissa Phase I	Orissa Phase II	PTJSI Indonesia	Total
Term Loans	USD Million	213	347	975	15	1,550
Internal Accruals	USD Million	142	179	282	5	608
Equity	USD Million	-	38	17		55
Sub Debt	USD Million	-	-	125		125
Total - Project Cost	USD Million	355	564	1,399	20	2,338
Debt/Equity						1.97
<i>Based on conversion rate USD : INR at Rs 40</i>						

Source: Company Presentation

CDR

Jindal stainless was in middle of major expansions and raised significant debt to fund its future expansions when the crisis hit, huge cash outflow due to interest costs of non operational units and operational losses due to sudden fall in demand in Q2-FY08 triggered a liquidity crisis. Company has thus admitted itself for Corporate Debt restructuring plans under which company's cost of debt will reduce by 100 bps which will save company 30-40 crores annually.

Result analysis:

Considering the FY 2009 results, company suffered losses on account of worldwide economic meltdown which created sluggish demand across the globe during second half of the year resulting in lower sales realization and loss of Margin. Under such consequences, production facilities at Hissar and Orissa were shut down. However company has made a fast recovery in recent quarters. Sales for the Q2FY10 went up to 1400 crores compared to 1200 crores in preceding quarter. EBITDA margin for hissar division reached 18% as compared to 5% in the same quarter last year, whereas EBITDA margin for Orissa division came to 26% as compared to 29% in the same quarter last year. Company's debt cost ranged between 10 - 11%. PBT for last 6 months stood at 242 crores.

Stainless steel industry:

Global stainless steel production witnessed sharp decline in production in 2008 totaling 25.9 million metric tons according to the International Stainless Steel Forum (ISSF). The preliminary figures indicate an output decline of 6.9% from 2007 level. In Asia (Ex-China), stainless steel output declined by 10.3% to 8.1 million metric tons in 2008. While China which alone produces about 27% of the global production, total output dropped 3.6% to 6.9 million metric tons.

The domestic stainless steel consumption is around 1.5 million tons of which around 70% is from the conventional utensil segment market and balance 30% accounts from demand coming from higher end segments. Indian stainless steel demand historically has grown at annual rate of around 10%. **India's per capita stainless steel consumption is around 1.2 kg per person as compared to developed countries of around 15 kg per person and China's consumption of 5 kg per person.**

Given that the Indian government is focusing on infrastructure spending would help in sustaining the GDP growth in the long term, this would result in higher consumption of stainless steel in existing and new applications. Even though world stainless steel production fell in 2008, the basic underlying demand for stainless steel remained healthy for Indian markets. **As per data released by ISSDA it is estimated to reach 4.084 million tons by 2015-16 from current 1.5 million tons.**

Pillars of Growth

<u>Railways</u>	<u>Infrastructure</u>	<u>Construction and capital & white goods</u>	<u>Industrial application</u>
<ul style="list-style-type: none"> ✚ All ordinary carbon steel wagons to be replaced by stainless steel so as to increase life of wagons ✚ Extensive level of usage of stainless steel in all passenger coaches and mass transit railways like delhi metro ✚ The Indian Railways is drawing up an ambitious Rs 1 lakh crores (Rs. 1,000 billion) modernization plan spread over the next five years ✚ Auto exhaust pipe systems are made from stainless steel 	<ul style="list-style-type: none"> ✚ Infrastructure growing at more than 10% growth rate ✚ 90 million sq ft of shopping mall and office spaces is expected over next 2 yrs. ✚ Complete modernization of more than 30 airports and all railway stations ✚ Organized retail segment yet to open up and grow to 10% ✚ New Delhi Municipal council has started replacing the existing bus shelters with stainless steel shelters. 	<ul style="list-style-type: none"> ✚ Strong construction boom in India fuelled by infrastructure need and residential unit demand ✚ Robust industrial growth calling for increased capital investment ✚ Growing affluent middle class leading to strong white goods demand. 	<ul style="list-style-type: none"> ✚ Power equipment industry is on a rapid growth path with huge capital outlay on development of power plants. ✚ Process industry including pharmaceuticals, foods processing, dairy processing, petrochemical and other industrial applications is on the path of implementing more plans

(Source : JSL corporate presentation 2008)

FINANCIALS: JSL limited. (Rs Crores)

	2008-09	2007-08	2006-07	2005-06	2004-05
Gross revenue	5726.78	5829.09	5296.57	3470.06	3313.25
Profit before Interest , tax and depreciation	-204.97	914.21	951.85	479.08	537.78
less: Interest/ Finance charges	372.09	248.24	167.9	92.93	60.3
Profit before tax and Depreciation	-577.06	665.97	783.95	386.15	477.48
less: Tax	-300.77	132.17	215.76	77.19	110.56
Profit After Tax and before Depreciation	-276.29	533.8	568.19	308.96	366.92
Add: Deferred Revenue Expenditure	1.41	0.48	0.54	0.39	0.4
Cash Accruals	-274.88	534.28	568.73	309.35	367.32

BALANCE SHEET: JSL limited. (Rs Crores)

	2009-08	2007-08	2006-07	2004-05	2003-04
Networth	1290.34	1840.67	1416.91	1009.21	792.77
Loans- term	5657.14	4306.09	2672.33	2210.97	1365.27
Loans - working capital	0	0	0	0	0
deferred tax liability	199.14	487.7	391.58	278.3	225.26
TOTAL	7146.62	6634.46	4480.82	3498.48	2383.3
net block including WIP	5966.45	4785.74	3780.78	2600.83	1732.58
Investments	896.86	93.29	188.56	310.22	193
net working capital	254.99	1739.55	509.18	585.39	456.11
deferred revenue expenses	28.32	15.88	2.3	2.04	1.61
TOTAL	7146.62	6634.46	4480.82	3498.48	2383.3

ANALYSIS & REPORT

Why to invest in shares of JSL?

1) SECTOR:

While global steel and stainless steel sector are still struggling to find their feet on the ground scenario is much difference for India which is in major expansionary mode.

- Pricing power: Price controlling power is high in this sector as top 13 flat product players accounts for ~85% of total global capacity.
- India's per capital steel consumption at 1.5 kg's per capita is less than a third of 5 Kg's per capita for Jindal stainless, exceptionally strong demand over next few will help the sector grow in double digits on lower base.
- Infrastructure: Boost in infrastructure given by Indian government will push demand for stainless steel upwards.

2) COMPANY:

- Phase II of Orissa project to be completed in 12- 18 months that would generate 8 lacs tons per annum of stainless steel. This plant can be further upgraded to 1.6 MTPA. Company has set itself an ambitious target to become one of the top 10 players globally in the steel industry, with capacities of 2.5 MTPA.

3) FUNDAMENTALS:

- Company posted 16 % Q-o-Q growth in sales in Q2FY09 with operating margin at between 18% - 22% one of the highest in Industry.
- Although balance sheet is currently stretched company will be able to generate enough cash to pay interests timely. Company will generate before interest payments of about 1200 crores for FY10E and interest payments at about 500 crores, going forward company's sales will rise exponentially when its phase to gets implemented which could take another two years. Post FY12 company's earnings and cash flow will rise tremendously as it will be able to maintain its margins.
- Company is expected to close FY10 at EPS of around 14. Company is currently trading at 7x its expected FY10 EPS, which will rise multiple times in FY12 and FY13.

4) TECHNICALS:



JSL continues to be bullish in the long term above 75.

Stop loss for trader: 90
Target for trader: 110

Stop loss for investor: 75
Target for investor: 135

Notes: Figures and graph sourced from www.bseindia.com and capital market.

END

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